Sanai Health Industry Group Company Limited
三愛健康產業集團有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1889)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Reference is made to the announcement of Sanai Health Industry Group Company Limited (the "**Company**") dated 29 March 2022 in respect of annual results announcement for the year ended 31 December 2021 (the "**Annual Results Announcement**") and the annual report 2021 for the year ended 31 December 2021 dated 29 March 2022 (the "**Annual Report**") and published on 29 April 2022. Capitalised terms used in this announcement shall have the same meanings as those defined in the Annual Report unless otherwise defined herein.

In addition to the information disclosed in the Annual Report, the board (the "**Board**") of directors of the Company would like to provide to the shareholders of the Company and the potential investors with the following supplementary information to the following sections of the Annual Report.

SUPPLEMENTAL INFORMATION IN RELATION TO ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2021

Business Model of Finance Leasing Business

Union Development Finance Lease (Shenzhen) Company Limited* (聯合發展融資租賃(深圳)有限公司) and Zhonghuixin Finance Lease (Shenzhen) Co., Ltd.* (中匯鑫融資租賃(深圳)有限公司) ("**Zhonghuixin**"), both being indirect wholly-owned subsidiaries of the Company, have been engaging in finance leasing business since 2017 and 2021 respectively. The revenue derived from finance leasing business of the Group for the Reporting Period was approximately RMB9.30 million (2020: RMB6.61 million), representing an increase of approximately 40.82% as compared to the year 2020.

Our finance leasing business mainly aims at providing financial leasing services of medical devices and rehabilitation equipment which are complimentary to the Group's existing pharmaceutical products business. The products manufactured by the leased medical devices and rehabilitation equipment are independent to the business of the Group. The business nature of the lessees of our current finance leases were generally in medical industry, pharmaceutical industry and public infrastructure industry. However, our finance leasing services would not be limited to any particular business nature of a client. The Group also does not eliminate the possibility of providing financial leasing services for other types of devices and equipments. The potential lessee will first approach Zhonghuixin to confirm whether the equipment or devices fall within the scope in which financing can be provided. The management of Zhonghuixin will conduct site visits and carry out due diligence on the potential lessee, the equipment or devices, assess the risks of the potential lease and followed by seeking the initial approval from the Group. The Group will further review, inter alia, the credit quality of the potential lessee, the purpose and value of the subject assets, the financial conditions of the potential lessee, the ultimate beneficial owner(s) of the potential lessee, the availability of guarantee and other relevant factors to assess the repayment capability of the potential lessee. If the Group approves the transaction in principle, the management of Zhonghuixin will further negotiate with the lessee on the terms of the transaction which include, inter alia, the lease terms, the interest rate, the option to purchase the equipment or device upon expiry of the lease term, etc. The Group will further check and seek professional advice on the compliance requirements and the Group will comply with the applicable Listing Rules requirements including making timely disclosures and seeking Shareholder's approval if necessary.

The Group have set up several departments (business department, risk department, finance department and review committee) to effect division of work (approval, release and review of the lease). The Group also has established lease approval procedures, internal guidelines and prepares standard forms for the finance lease business including the due diligence report on the lessees, lease approval checklist and lease evaluation checklists. Further, we set up pre-lease and post lease administrative measures for various departments of Zhonghuixin to follow including the administration of guarantees and assets charges, administration of overdue payment, treatment of leased assets and post lease agreement follow ups.

The Board will be responsible for the final approval of material finance lease agreements and assign one of the executive Directors to liaise with Zhonghuixin and directly monitors the finance lease projects with the responsible staff of Zhonghuixin, including the review of the due diligence report on the lessees, drafting of the lease documents, examination of the leased assets and registration of the charges thereto (if necessary), evaluation of the guarantors, collection of the rental income, review of the risks and portfolio of the finance leases and regular site visits and reviews of the lessees.

The Group also regularly monitors its working capital ratio, quick ratio and other relevant financial ratios in order to drive its finance leasing business forward as well as to balance the risk and return of the Group and its sustainability.

The Company will continue to endeavour to expand its finance leasing services of medical devices and rehabilitation equipment which is complimentary to the Group's existing pharmaceutical products business, or other types of devices and equipments, if feasible.

The Group has entered into several new leasing agreements in an aggregate principal amount of RMB225.5 million with interest rates ranging from 4.75%–7.0% per annum during the Reporting Period. The Company will continue to further diversify its finance leasing business with a cautious approach in order to maximise the long-term interests of the shareholders.

Credit Risk Management

The Group manages and analyses the credit risk for each of their new and existing lessees before standard payment terms and conditions are offered. In particular, the Group manages its credit risk by:

— Implementing account opening procedures which include financial background checks for credit verification purpose and credit limit assessment for new customers.

— Ensuring that the Group has appropriate credit risk practices, including an effective system for internal controls, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, HKFRS and relevant supervisory guidance.

— Designing and implementing credit policies to protect the Group against the identified risk including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.

— Limiting the concentrations of exposure by counterparties, credit rating, etc, If there is no independent rating for the counterparties, the Group will take into account the counterparties' financial position, past experience and other relevant factors to assess the credit quality of the customer.

— Establishing a robust control framework in respect of the authorisation structure for the approval and renewal of credit facilities.

— Developing and maintaining the Group's policies for measuring expected credit losses (ECL) including monitoring of credit risk, incorporation of forward-looking information and the method used to measure ECL.

— Ensuring that the Group has policies and procedures in place to properly maintain and validate models used to assess and measure ECL.

Measurement of ECL

The Group measures loss allowance under HKFRS 9 ECL model. The measure of ECL is a function of the probability of default, loss given default (i.e., the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data, collateral values, credit rating of customers and adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contracts and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at the initial recognition.

Interest income is calculated based on the gross carrying amount of the financial assets unless the financial assets are credit impaired, in which case the interest income is calculated based on amortised cost of the financial assets.

The key inputs used for measuring ECL are:

— Probability of default;

— Loss given default; and

— Exposure at default.

These figures are generally derived from the internally developed statistical models and other historical data and they are further adjusted to reflect forward-looking information.

Elements of the ECL models to be considered in accounting judgements and estimates include:

— The Group's estimation of probabilities of default on individual customers;

— The Group's criteria for assessing if there has been a significant increase in credit risk and allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;

— The development of ECL models, including the various formulas and the choice of inputs over determination of the period over which the entity is exposed to credit risk based on the behavioural life of the credit exposures, loss given default and collateral recovery of the credit exposures; and

— The determination of associations between macroeconomic scenarios and economic inputs, such as delinquency ratios and collateral values, and the effect on probabilities of default, exposures at default and losses given default.

The Group categorises the credit quality of its finance lease receivables with reference to the following three different stages under the ECL model:

— Stage 1: financial assets without significant increase in credit risk since initial recognition where loss allowance is calculated based on 12-month ECL.

— Stage 2: financial assets with significant increase in credit risk since initial recognition where loss allowance is calculated based on lifetime ECL.

— Stage 3: credit impaired assets where loss allowance is calculated based on lifetime ECL.

Significant Increase in Credit Risk

In assessing whether the credit risk has increased significantly since its initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information will be taken into account when assessing whether credit risk has increased significantly since its initial recognition:

— An actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

— Significant deterioration in external market indicators of credit risk for a particular financial instrument;

— Existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

— An actual or expected significant deterioration in the operating results of the debtor;

— Significant increases in credit risk on other financial instruments of the same debtor; and

— An actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since its initial recognition when any of the contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group monitors all financial assets that are subject to impairment requirements and assesses whether there has been a significant increase in credit risk since its initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The Group collects performance and default information about its credit risk exposures and analyses all data collected and estimates the remaining lifetime probability of default of exposures and how these are expected to change over time. The factors to be taken into account include macroeconomic data such as delinquency rate.

The Group uses different criteria to determine whether credit risk has increased significantly and the Group presumes that the credit risk on a financial asset has increased significantly since the initial recognition, when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has its internal controls and procedures in place to identify when the credit risk of an asset improves and the significant increase in credit risk is no longer met. If this is the case, the Group will re-consider the categorisation of the asset to stage 1 from stage 2, subject to payments being up to date and the ability of the borrower to make future payments on time.

Definition of Default

As the historical experience indicates that receivables that meet either of the following criteria are generally not recoverable, the Group considers the following events as events of default for internal credit risk management purposes:

(1) Probable bankruptcy of the borrowers; or

(2) Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 60 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. The following events may be an indicator that a financial asset is credit-impaired:

— Significant financial difficulty of the issuer or the counterparty;

— A breach of contract, such as a default or past due event;

— The lender(s) of the counterparty, for economic or contractual reasons relating to the counterparty's financial difficulty, having granted to the counterparty a concession(s) that the lender(s) would not otherwise consider;

— It is becoming probable that the counterparty will declare bankruptcy or enter into other financial reorganisation; or

— The disappearance of an active market for that financial asset.

Incorporation of Forward-Looking Information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL.

Credit Risk Exposure

The Group applies the general approach to provide for ECL as prescribed by HKFRS 9 on its finance lease receivables. The Group has taken into account the probability of default and loss given default with reference to the historical delinquency ratio of finance lease receivables, collateral values, credit rating of customers and current and forward-looking information on macroeconomic factors.

Save as disclosed above, all other information and content set out in the Annual Results Announcement and the Annual Report remain unchanged and shall continue to be valid for all purposes. This supplemental announcement is supplemental to and should be read in conjunction with the Annual Results Announcement and the Annual Report.

By order of the Board
Sanai Health Industry Group Company Limited
SHE Hao
Executive Director

Hong Kong, 6 September 2022

As at the date of this announcement, the Board comprises five executive directors, namely, Mr. Chen Chengqing, Mr. Gao Borui, Mr. Yuan Chaoyang, Professor Zhang Rongqing and Mr. She Hao, one non-executive director, namely, Mr. Xiu Yuan and three independent non-executive directors, namely, Professor Zhu Yi Zhun, Mr. Khor Khie Liem Alex and Mr. Zhang Ruigen.